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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 001042

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COMMERCE FOR U/S LAVIN
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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [ENRG](#) [EPET](#) [PREL](#) [AJ](#) [IR](#) [RU](#)
SUBJECT: AMBASSADOR'S INTRODUCTORY CALL ON FINANCE MINISTER
SAMIR SHARIFOV

REF: ATHENS 1782

Classified By: Ambassador Anne E. Derse per 1.4 (b,d).

11. (C) SUMMARY: In her July 11 introductory meeting with Minister of Finance Samir Sharifov, Ambassador Derse raised the importance of WTO accession, the GOAJ's transparency and anticorruption efforts and the importance of non-oil sector development and effective management of oil revenues. She also affirmed U.S. support for Azerbaijan's efforts to bring Caspian gas to reach international markets. Briefing the Ambassador on his energy discussions in Athens and Ankara, Sharifov said Greece and Turkey were surprised that Azerbaijan had taken the initiative on gas negotiations, and pledged that the GOAJ would remain engaged. In his view, Azerbaijan must first secure a bilateral transit agreement with Turkey in order to confirm volumes to Greece and make the overall gas plan work. Sharifov noted that Turkey and Russia, including Gazprom, had their own energy regional interests, complicating GOAJ's efforts to move forward. The Ambassador praised the active role Azerbaijan played in EITI and stressed that transparency and anticorruption efforts were critical. END SUMMARY.

12. (C) Ambassador Derse, accompanied by Econoff and USAID Country Coordinator, paid an introductory call on Finance Minister Samir Sharifov on July 11. The Ambassador reviewed U.S. economic priorities for the bilateral relationship, highlighting the importance of WTO accession and the GOAJ's transparency and anticorruption efforts; she also affirmed U.S. support for Azerbaijan's efforts to bring Caspian gas to European markets. Finance Minister briefed the Ambassador on his recent visit to Ankara and Athens for discussions on Azerbaijani gas purchase and sales to Greece and Europe. Sharifov highlighted that Azerbaijan is taking the initiative to push Azerbaijani gas exports to Europe. He noted that Greece and Turkey were surprised that Azerbaijan had taken on this initiative to begin the dialogue on obtaining gas sales agreements with Greece/Europe. (NOTE: Finance Minister Sharifov has continued to play an active role in GOAJ energy policy since coming to the ministry from the State Oil Fund in April, and indicated that he will continue in this role.)

GOAJ-GOT BILATERAL TRANSIT AGREEMENT

13. (C) Sharifov told the Ambassador that securing a bilateral transit agreement with Turkey was key to supplying Greece, Italy and other European countries with Caspian gas. He said that Greece is interested in purchasing additional gas volumes to diversify domestic supplies, which Azerbaijan or Kazakhstan may be positioned to provide. In addition, Greece's DEPA is interested in purchasing gas directly from Azerbaijan without intermediaries, i.e. Turkey. Sharifov stated that Azerbaijan would have 300 million cubic meters of natural gas ready to supply Greece. Azerbaijan, however, does not want to commit any gas volumes now without first securing a transit agreement with Turkey. In addition to a transit agreement, there needs to be a technical assessment done by BP, Statoil and others on the Turkey-Greece-Italy energy grid and its delivery capabilities.

14. (C) The Minister noted that Turkey wants to purchase Azerbaijani gas and then resell it to Greece and other European countries. Azerbaijan, however, does not agree with this approach and wants to sell its gas directly to Europe. According to Sharifov, there are minor technical issues with the Greece-Turkey gas pipeline that also would need to be finalized, and the pipeline needs to be filled with "filler gas." Gazprom/Russia is telling Greece that only Russian gas from the Blue Stream pipeline can be the filler gas in the Turkey-Greece pipeline. Azerbaijan feels its gas can also fill this pipeline. Sharifov told the Ambassador that Greece is currently obtaining its gas from Gazprom and that the existing Gazprom-Greece gas sale purchase agreement is valid until 2016, supplying gas to Greece at USD 125 per thousand cubic meters. Greece is

concerned about the pressure Russia can bring to bear as a result.

15. (C) According to Sharifov, Greece is hesitant to press Turkey on the Azerbaijani gas transit agreement issue. He

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noted that Greece-Azerbaijan relations have been damaged with the recognition of northern Cyprus and the commercial flight from Baku to the island in 2005, but appeared to indicate this is not a factor in the gas discussions. Sharifov thought that the EU should play a more active role in the gas issue as part of its overall efforts to diversify its energy supplies and use its position to influence Turkey to accept a transit agreement with Azerbaijan. To gain EU support, Sharifov explained to the Ambassador, Azerbaijan will work in Brussels to convince the European Commission on the importance of supporting efforts to provide Azerbaijani gas to all European countries.

16. (C) Sharifov was confident that with a gas transit agreement with Turkey, Kazakhstan would be more interested in joining the venture and providing more gas volumes. He added that if Turkey hesitates on finalizing a gas transit agreement, it may lose an opportunity to move Caspian gas to Europe, as Gazprom would lock in long-term agreements with European countries. Sharifov believed that Turkey should not let its stated desire to become an "energy hub" country preclude finalization of a gas transit agreement with Azerbaijan. Sharifov told the Ambassador that the proposal to create a four-party (Turkey, Greece, Italy and Azerbaijan) energy working group was not a productive idea and most likely a delaying tactic by the Turks. He felt that a Turkey-Azerbaijan bilateral energy working group led by each country's special energy ambassadors (Ambassador Balcan from Turkey, for example, and an as-yet unnamed Azerbaijani counterpart) would be more productive.

17. (C) According to Sharifov, the Greece-Russia relationship is dynamic and the Turkey-Russia relationship is complex. Turkey is courting Russia for Russian oil to put in a new Samsun-Ceyhan pipeline. Sharifov told the Ambassador that Turkey wants Russian oil. Azerbaijan believes that the gas issue is part of a larger regional "game" involving oil and pipeline supply and control. The Samsun-Ceyhan pipeline idea could fail if Turkey does not lock in Russian oil supplies.

18. (C) Finally, Sharifov stressed to the Ambassador that the Azerbaijani gas initiative will not succeed without U.S. support. He noted that the discussion between President Aliyev and President Bush on energy issues had been productive and that as a follow-on the U.S. and Azerbaijan needed to work together and consult regularly. He stressed that Azerbaijan is open to U.S. views and ideas and that Azerbaijan will remain active on the gas to Europe issue. The Ambassador agreed and stated that she would brief Sharifov on her energy discussions upon her return from Istanbul and Athens.

U.S.-AZERBAIJAN ECONOMIC RELATIONS

19. (C) Turning to financial affairs, the Ambassador told Sharifov that the U.S.-Azerbaijan economic relationship as maturing and becoming more multifaceted. The Ambassador stressed that accelerated economic reform would support democratic and social reform. The Ambassador told Sharifov that the U.S. was interested in raising the level of the economic dialogue to a higher level like that the USG pursues with other more developed economic partners. Sharifov said that Azerbaijan appreciated the U.S. assistance and was interested in raising the level of economic dialogue (septel reports President Aliyev and Sharifov's agreement in Istanbul to move forward with a new economic dialogue). The Ambassador praised Azerbaijan's active role in the Extractive Industries Transparency Initiative (EITI) and stressed the importance of transparency for combating corruption. Sharifov recognized that Azerbaijan suffers from many problems and said that it cannot resolve them overnight. He added that Azerbaijan was moving in the right direction.

110. (C) Sharifov briefed the Ambassador on the GOAJ's strategy to invest in physical and social infrastructure, noting that during the past 20 years little investment had been made in the non-oil sectors of the economy. Consequently, many sectors, and notably agriculture, are severely underdeveloped. He recognized the economic dangers of spending too much money too fast, but added that while the GOAJ would combat inflation, an

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increase in inflation was "normal" for a fast developing country like Azerbaijan. Sharifov noted the imbalance between the supply base and domestic demand, noting that the GOAJ needed to spend more to relieve the supply constraints. The Minister told the Ambassador that Azerbaijan was committed to reform and would accelerate reform, build on its regional economic initiatives and improve the business climate.

111. (C) The Ambassador stressed to Sharifov the value of joining the WTO for improving legal, regulatory and institutional infrastructure reforms. Sharifov cautioned

that Azerbaijan was still a developing country with respect to sectors other than energy and could not fully open its markets before these sectors were more mature. He added that that economic base of the country was too narrow and not prepared for an influx of imports. Sharifov agreed that WTO membership was important but argued that the GOAJ needed to ensure there was a proper economic balance before moving too quickly in order to not damage emerging sectors. The Ambassador told Sharifov that the U.S. would be willing to engage in a dialogue with the GOAJ on how to advance its WTO accession while ensuring that critical economic sectors were not hurt.

¶12. (C) At the end of the meeting, USAID Country Coordinator briefly outlined several U.S. assistance programs at the Ministry of Finance. Minister Sharifov indicated that he was aware of the projects and grateful for the U.S. support. USAID Country Coordinator emphasized that the GOAJ's interest in accelerated investment in physical and social infrastructure, with modest inflation, can benefit from rigorous implementation of U.S. assistance activities on revenue management, capital spending, and expenditure tracking. He also stated that these projects are "poised" to help the GOAJ move ahead rapidly with these programs as government revenues and spending increase. The Ambassador and AID Country Coordinator explained to Sharifov that the future of U.S. assistance to Azerbaijan included "co-financing" of projects. Sharifov told the Ambassador that he is prepared to work with the USG to move towards "burden sharing" on assistance. Sharifov noted the timeliness of this issue and suggested that developing a co-financing strategy (Embassy side referenced the recent agreement between the U.S. and Kazakhstan as a possible model) be taken up as a major focus of the next U.S.-Azerbaijan Joint Economic Task Force meeting, tentatively scheduled for October 2006.

DERSE